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Internal audit and oversight

Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2009, including its implementation of Executive Board decision 2008/37. As requested by the Board in its decision 2009/15, the report contains comprehensive information on disclosure of internal audit reports to Member States and a multi-year comparison of trends in audit issues. Also, as requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16/Rev.1), the annual report of the Audit Advisory Committee is appended to the present report.

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) acknowledge OAI compliance with decision 2008/37 on the disclosure of internal audit reports; (c) express its continuing support to strengthen the internal audit and investigation functions of UNDP; and (d) take note of the annual report of the Audit Advisory Committee.



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Annex (available on the Executive Board web page)

High-priority recommendations unresolved for 18 months or more

Appendix (available on the Executive Board web page)

Annual report of the Audit Advisory Committee for the calendar year 2009

Introduction

1. The UNDP Office of Audit and Investigations (OAI) submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2009, including its implementation of decision 2008/37.

2. As requested by the Board in decision 2009/15, the report contains comprehensive information on disclosure of internal audit reports to Member States and a multi-year comparison of trends in audit issues. As requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16 Rev.1), the annual report of the Audit Advisory Committee (AAC) is appended to the present report.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. The institutional arrangements for the independent internal oversight of UNDP are comprised of OAI, the Evaluation Office, and the Ethics Office (DP/2008/16 Rev.1). OAI is specifically mandated to provide internal audit and investigation services. The Director of OAI is directly accountable to the Administrator and independently submits to the Board an annual report including a summary of OAI observations and recommendations. As described in its charter approved by the Administrator, OAI assesses the effectiveness of risk management, the adequacy and effectiveness of controls and governance processes of UNDP, and provides reasonable assurance to the Administrator regarding the reliability and integrity of financial, managerial, and operational information. It also assesses effectiveness and efficiency of operations, the safeguarding of assets, and compliance with legislative mandates, regulations, rules, policies and procedures.

4. To continually ensure its effectiveness in carrying out its mandate, OAI implements a quality assurance and improvement programme. In 2009, OAI was independently validated to be in general conformance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors. OAI was also independently assessed as being in overall conformity with generally accepted principles and standards for investigations in international organizations.

5. As part of the institutional arrangements of UNDP for independent external oversight, its AAC, consisting of five independent and external experts, continued to review the strategy, annual workplan, budget, and annual report of OAI, and provided advice to promote the effectiveness of internal audit and investigation functions in UNDP. Similarly, as part of independent external oversight, the United Nations Board of Auditors (BOA), also reviewed OAI operations in connection with the biennial audit of BOA in 2008. In 2009, BOA assessed the OAI review process for audits conducted by appointed auditors of projects implemented by non-governmental organizations (NGOs) and/or national governments (known as NGO/NIM projects), as well as the OAI audit of global payroll. These reviews are done continually to allow BOA to determine the level of confidence and reliance that it can place on the work of OAI.

6. To enhance UNDP staff awareness of the internal audit and investigation functions, OAI participated in various forums in 2009, such as regional cluster meetings, resident representative/resident coordinator induction workshops, and operation manager workshops to present OAI activities and share lessons learned from audits and investigations. OAI has also issued two flyers, in all three UNDP working languages, about OAI functions, and on how to report wrongdoing.

7. OAI continued to liaise externally with its counterparts as an effective way of identifying and sharing best practices and discussing matters of common interest and promoting cooperation with other audit and investigation services in the United Nations system and elsewhere. From

30 September to 2 October 2009, OAI successfully hosted the 40th meeting of the Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated International Organizations (RIAS) in Kuala Lumpur, Malaysia. The Director of OAI assumed the chairmanship of RIAS for one year and will serve as the spokesperson of the United Nations internal audit services at the High-level Committee on Management. OAI also chaired the United Nations internal audit operational group, dealing with audit issues related to 'delivering as one' countries, multi-donor trust funds, and other joint initiatives. OAI took a lead role in the coordinated audit of the Sudan Common Humanitarian Fund, which was part of the 2009 workplan for this sub-group, and was conducted in accordance with the Framework for Auditing Multi-Donor Trust Funds. In April 2009, OAI participated in the annual meeting of the Financial and Administrative Framework Agreement working group. As an active member of the Conference of International Investigators, OAI participated in the 11th conference in June 2009, which led to the adoption of a revised set of principles and guidelines for investigations, applicable in international organizations.

Basis for providing independent assurance

8. In January 2009, the Administrator approved the OAI three-year strategy for 2009 to 2011, which takes into account, *inter alia*, the UNDP oversight policy as part of the accountability system of UNDP, which was approved by the Board at its second regular session 2008. The strategy is aligned with the results-based management framework of UNDP, in that it articulates how OAI will contribute to the achievement of corporate results. To achieve the goal of providing independent assurance, the strategy describes how OAI audits shall cover an appropriate mix of business units, functions and activities at the UNDP corporate, regional, and country levels, including projects directly implemented by UNDP – known as direct implementation modality (DIM) projects. This mix of work was completely accounted for in the 2009 annual workplan, which was reviewed by the AAC in December 2008 and approved by the Administrator in January 2009.

9. As encouraged by the Executive Board in decision 2009/15, OAI expanded coverage of headquarters units. In 2009, OAI issued 71 audit reports¹ – eight were headquarters audits, and 63 country office² audits (see figure 1). The eight headquarters audit reports included three consolidated reports on audit 'threat areas' covered during country office audits, namely: procurement, safety and security, and advances for NGO/NIM projects. The 63 country office audits comprised 36 comprehensive office audits, 11 audits of DIM projects, six follow-up audits, four audits of projects funded by the Global Fund to Fight AIDS, Tuberculosis and Malaria, three audits focused on country office procurement function, and three special audits (see figure 2).

10. Since most of the audit reports issued in 2009 covered operations and activities of UNDP offices during 2008, the audit outcomes generally reflect the status of operations in 2008. The 63 country office audits accounted for about \$1.94 billion (45 per cent) of the \$4.34 billion in expenditures that UNDP incurred at the field level in 2008, as recorded in the UNDP enterprise resource planning system, Atlas. Country office audits and headquarters audits thus represented a solid supplement to the other oversight mechanisms from which the Administrator and the Board derive assurance on the efficient use of UNDP resources, and the effectiveness and adequacy of governance, risk management, and internal control processes.

¹ In total, OAI issued 71 audit reports during 2009, including two audit reports pertaining to the United Nations Development Fund for Women (UNDFM). See chapter IX of this report.

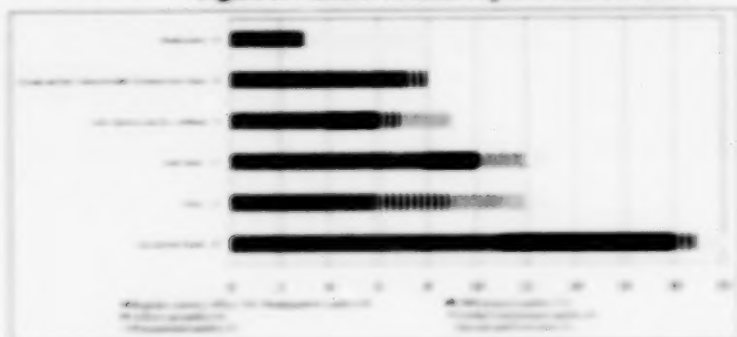
² For purposes of this report, the term 'country office' encompasses all field-based units.

Figure 1. OAI reports issued in 2009

Location	Audit subject / UNDP office
Headquarters, New York	Global projects, internal control framework, Regional Bureau for Africa, Regional Bureau for Arab States, United Nations Capital Development Fund (UNCDF) Consolidated reports on audit threat areas: NIM NGO advances, procurement, safety and security
Africa	Office: Burkina Faso, Gabon, Malawi, Mauritania, Nigeria, Swaziland Follow-up: Burundi, Central Africa Republic, Mauritius Global Fund projects: Angola, Democratic Republic of the Congo Procurement: Liberia Special: Democratic Republic of the Congo
East and the Pacific	Office: Afghanistan, Cambodia, China, Fiji (multi-country office), Indonesia, Lao, Mongolia, Myanmar, Nepal, Republic of Korea, Timor Leste Follow-up: Malaysia IDM projects: Afghanistan, Nepal, Pacific Centre, Pakistan, Sri Lanka, Thailand, Timor Leste Special: Afghanistan, United States Agency for International Development (USAID)-funded projects
Arab States	Office: Egypt, Programme of Assistance to the Palestinian People (I and II limited scope), Somalia, Sudan (North), Sudan (South), Tunisia, Yemen IDM projects: Programme of Assistance to the Palestinian People Global Fund projects: Sudan (North), Sudan (South) Type of: Sudan, Resident Coordinator Office
Europe and the Commonwealth of Independent States	Office: Kazakhstan, Lithuania, Macedonia, Montenegro, Poland, Romania, Russian Federation Follow-up: Azerbaijan
Latin America and the Caribbean	Office: Ecuador, El Salvador, Guatemala, Nicaragua Follow-up: Jamaica IDM projects: Guatemala, Nicaragua Procurement: Honduras, Venezuela

Source: Data for projects with a UNDP audit, audit audit for UNDP and its agencies.

Figure 2. Number of audit reports issued in 2009



II. Disclosure of internal audit reports

(i) The UNDP oversight policy, and the annexed document 2009/17, recognize the confidential nature of internal audit reports and provide a set of minimum conditions that must be satisfied when disclosure of such reports is requested by a Member State. UNDP has established internal standard operating procedures for handling disclosure requests to ensure that any action taken is in full compliance with this policy.

(ii) UNDP makes available to any requesting Member State a quarterly list of audit reports issued from the adoption of document 2009/17. UNDP received six different disclosure requests, five from the Government of the United States of America, and one from the Government of Costa Rica together to these requests, access to 18 internal audit reports was granted, as UNDP processes in New York, and under conditions of confidentiality. Access to one report was withheld for reasons of confidentiality. The request from the Government of Costa Rica is being ordered, as the audit report in question had not yet been completed at the time of receiving the request. The reports on the following UNDP offices have been disclosed as far:

- (a) Afghanistan
- (b) Afghanistan - special audit of UNDP funded projects
- (c) Cambodia
- (d) Cameroon
- (e) Democratic Republic of the Congo
- (f) Democratic Republic of the Congo - United Fund grant
- (g) Guatemala - UNDP Projects
- (h) Haiti
- (i) Honduras - UNDP Projects
- (j) Kenya
- (k) Regional Bureau for Africa
- (l) Somalia
- (m) Sudan (Bahr el Jebel office)
- (n) Sudan (Bahr el Jebel office) - United Fund grant

(iii) In line with document 2009/17, UNDP, through the Executive Board secretariat, informed the Board of all these requests immediately after receipt, and prior to any disclosure. Upon receipt of a request, UNDP verified whether the reasons and purposes for receiving the report were adequately stated, and whether the request constituted an explicit confirmation of the

commitment to confidentiality. In addition, OAI informed the Governments concerned of the disclosure request through a letter addressed to the respective Permanent Representative to the United Nations. Governments were given adequate time to view and comment on the report. Most of the Governments concerned made use of the opportunity to read the report on OAI premises in New York, and showed interest in the assessment by OAI of the UNDP office in their respective countries. After viewing the report, no Government raised an objection to disclosing it to the requester.

16. Prior to disclosure, the requested reports are independently reviewed by two people – normally the chief of the regional audit centre concerned, and the OAI Director or Deputy Director – to determine whether they contain “... certain information deemed particularly sensitive that relates to third parties in a country, Government or administration, or could compromise pending action, or where such is likely to endanger the safety and security of any individual, violate his or her rights or reveal his or her privacy” or that the report would have to be redacted, or in extraordinary circumstances, withheld.

17. OAI determined that some of the reports requested contained particularly sensitive information that OAI had requested redacting. However, in one case, OAI decided to withhold a report requested in view of an ongoing investigation, redacting that report was not suitable.

18. In all instances, OAI kept the OAI fully informed through the quarterly progress reports that were discussed during the briefing sessions with the OAI.

19. Two major donors to UNDP – the European Union and United Fund – who are not Member States, approached OAI for access to internal audit reports. In line with the decision taken by the Executive Board, OAI provides for disclosure to Member States only, not to donors. In fact, OAI has consistently declined such access to donors. The governing body of the United Fund has approached the President of the Bureau of the UNDP/UNFPA Executive Board on this issue. Discussions with the United Fund are ongoing to find suitable alternatives to satisfy its assurance and information needs.

III Risk-based audit planning

20. OAI audit plans are risk-based and consistent with the goals of UNDP. Considering the decentralized operations of the organization and the variety of functions carried out by its various business units, OAI uses different risk assessment methodologies, as appropriate. The risk assessment model for assessing country offices for audit includes qualitative and quantitative factors, some of which are assessed by OAI and some by the regional bureaux with input from their respective country offices. The exercise results in four risk ratings of offices: high, medium-high, medium-low, and low risk. OAI assesses auditing those offices every two years, that is, mid-year and year-end, respectively. Overall, the method results in an average of some 17 comprehensive country office audits per year. Since the introduction of risk-based audit planning in 2005, OAI has closed the gaps in previous years and managed to audit all offices.

21. Unlike the risk assessment for country office audits, an audit risk assessment for headquarters units cannot be based on a standardized risk assessment model with predetermined quantitative and qualitative factors. The risk assessment methodology is thus customized for each major headquarters unit, and generally collected through interviews and facilitated audit risk assessment workshops with managers. The methodology results serve the basis for analyzing the audit universe and prioritizing possible audit assignments for a short- to medium-term audit plan. The audit risk assessment exercise was done for the Bureau of Management in 2006 and a similar exercise was performed for the Programme Division in 2009.

22. Summarizing the results of these audit risk assessments, the 2005-2006 workshop concerned facilities, with some 7 per cent of its universe prioritized to any audit, in order to allow it emerging risks and existing problems during the year.

IV. Staffing and budget

21. OAI continued to face staffing and budget challenges during the year. As of 31 December 2008, OAI had 86 approved posts, including two posts dedicated to the audit of Global Fund projects and one post funded by UNHCR. Out of the 86 posts, 58 posts were encumbered, six posts were vacant (one at headquarters and five in the regional audit centres) and two posts were temporarily frozen due to budgetary constraints. Four of the six posts became vacant in 2009 due to staff movements and attrition, while one post remained vacant in 2009 after two unsuccessful rounds of recruitment. On average, posts remained vacant for seven months.

22. In 2008, OAI had an approved overall budget of \$1.7 million, with a slight increase in staffing costs over 2007. Out of this budget, \$2.7 million (17 per cent) was allocated to the investigation function. In the 2008-2009 biennium, 90 per cent of funding was received from the regular resources of UNDP, and the balance from other (non-core) resources.

23. A projected funding shortfall in the other resources of UNDP also affected OAI, as it was required to reduce its funding needs from these resources by \$1.26 million over a four-year period, from 2009 to 2012. In 2008, OAI managed to generate total savings of close to \$0.8 million. This was partly due to process improvements, reducing expenses on consultancy and travel, and temporarily freezing a vacant audit supervisor post at headquarters. The savings achieved in 2008 significantly exceeded the annual target and will help alleviate the effect of the required budget reductions in future years.

V. Significant internal audit results

A. Headquarters audit

24. Except for the three consolidated reports on audit issues across sub-chapter B – country office audits, OAI issued five reports on the audits of the Regional Bureau for Arab States, the Regional Bureau for Africa, global projects managed by the Bureau for Development Policy, and the UNCTAD, as well as the first review of the internal control framework. The results are summarized as follows:

(a) *Regional Bureau for Arab States (March 2009)*: Information and communication within, to, and from the Bureau, as well as monitoring and oversight of country operations by its country office divisions were satisfactory. However, there was room for improvement in governance and strategic management, human resources management and programme activities. Recommendations were issued to address concerns in these areas including: reviewing the adequacy of structure and workload; alignment of the Bureau; establishing clear consultation with country offices at an early stage for regional programming; and enhancing oversight and monitoring of regional projects. By 31 December 2009, 11 of the 12 recommendations were fully implemented.

(b) *Regional Bureau for Africa (June 2009)*: A number of weaknesses were noted in the organizational structure of the Bureau, its governance, and management of regional programmes. Recommendations included establishing function-wide coordination and networks at headquarters, and between the headquarters and African sub-regional offices, facilitating structural internal communication, and strengthening the governance and management mechanisms, planning and reporting processes, and the monitoring and oversight of regional programmes. By 31 December 2009, all 21 recommendations were fully implemented.

(c) *Global projects managed by the Bureau for Development Policy (August 2009)*: The areas of governance and strategic management, networking and resource mobilization, human resources management, financial management and procurement were satisfactory. However, recommendations were made to enhance global programme and project management, such as setting up projects, functioning outcome and project health, describing clear project

management arrangements (including outcome indicators, benchmarks and targets in project documents), and preparing complete evaluation plans. By 31 December 2009, seven of the 15 recommendations were fully implemented, while all others were in the process of being implemented.

16. United Nations Capital Development Fund (August 2009): UNCDF was established in 1966 by the General Assembly with a unique mandate to provide capital assistance to developing countries with a special focus on the least developed countries. The audit, which was requested by the incoming UNCDF Executive Secretary, assessed the organizational structure and staffing of the Fund, the design of its operations, monitoring, oversight, finance and administration, and concluded that all areas, except finance and administration, required significant improvements. OIG recommended strengthening the organizational structure by streamlining the regional structure, function and reporting lines, extending change management to the country level, formalizing the delegation of authority in line with the internal control framework, resolving issues of sub-optimal implementation of Atlas, strengthening management of loans and advances, and monitoring project audits and evaluations. UNCDF agreed with all 24 recommendations and reported that 11 were fully implemented in 2009, while the remaining 13 were in the process of implementation according to their 2010 deadlines. OIG will validate this in a planned follow-up audit.

17. Internal control framework for UNDP offices (December 2009): OIG performed a desk review of the internal control framework and compared it with frameworks used by other international organizations. OIG recommended that the framework explicitly link all existing major control processes, planning and strategy setting, programme management, and human resources management to internal control, and that strong monitoring and reporting on internal control activities be established. By 31 December 2009, the two recommendations were in the process of implementation. Subsequently, UNDP drafted a revised internal control framework, which incorporates the results of the review.

9. Country office audits

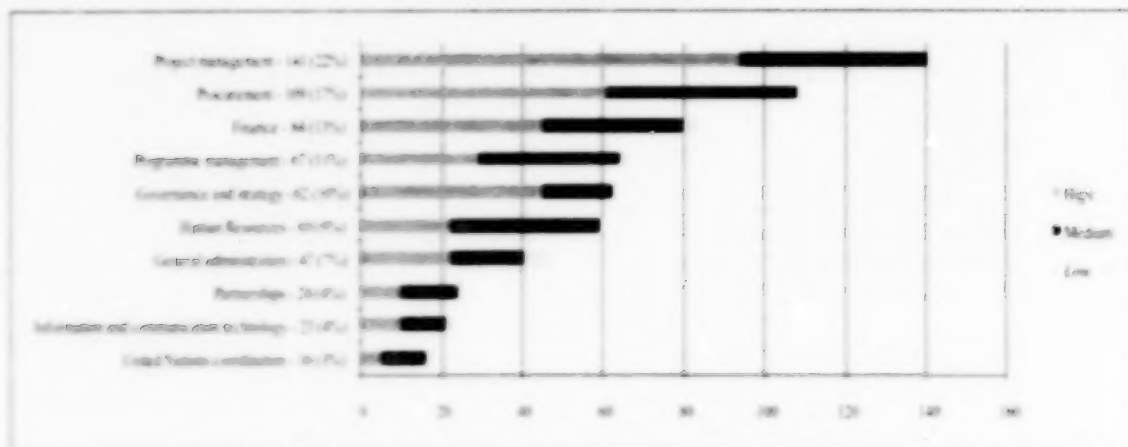
25. The internal audit of a country office generally covers activities in the following areas: governance and strategic management; United Nations system coordination (development activities, office of the resident coordinator, and role of UNDP in the 'one United Nations' approach); programme activities (programme management, partnerships and resource mobilization, project management, advances to UN/UNEP projects); and operations (human resources, finance, procurement, information and communications technology, general administration, and safety and security). In one case, the scope of the country office audit had to be substantially limited as the audit team leader with programme expertise was not granted a visa.

26. As part of the OIG strategy to ensure its plans are consistent with organizational goals, country office audits include cross-cutting themes (or threat areas) that are reviewed consistently based on standardized audit procedures; results thereof are consolidated and re-analyzed from a corporate-level perspective. In 2009, these threat areas were procurement, safety and security, and advances to UN/UNEP projects.

9.1 Findings and corrective action taken

27. The 47 country office audit reports issued in 2009 contained 433 recommendations, of which 342 were ranked high priority, which meant action was considered imperative to ensure UNDP was not exposed to high risks – failure to take action could result in major consequences and costs. The majority of audit issues were identified in the areas of: (a) project management; (b) procurement; (c) finance; and (d) programme management. Together, these represented 47 per cent of all audit recommendations issued over (para 7). The OIG focus on the three threat areas increased the number of issues noted in project management, procurement, and general administration.

Figure 3. Distribution and prioritization of audit recommendations in 2009 reports
(total recommendations: 633)



Cross-cutting audit issues

28. Three consolidated reports were issued during the year, one each on procurement, safety and security, and advances to NGO/NIM projects, based on audits of 21 country offices (for procurement and safety and security) and 14 country offices (for advances to NGO/NIM projects) during the 12-month period from mid-2008 to mid-2009. In most offices audited, these three audit areas were rated 'satisfactory'. Nonetheless, certain key issues, albeit not recurring, arising from the audits are presented below. Based on OAI follow-up after the audit, corrective actions have already been initiated by the management concerned to address the following issues:

(a) *Procurement*. While audits showed that the procurement function was managed satisfactorily in 53 per cent of 21 offices, they also identified areas for further improvement in procurement committee review processes (13 offices), compliance with contract award guidelines (nine offices), procurement planning (seven offices), and the bidding process (seven offices).

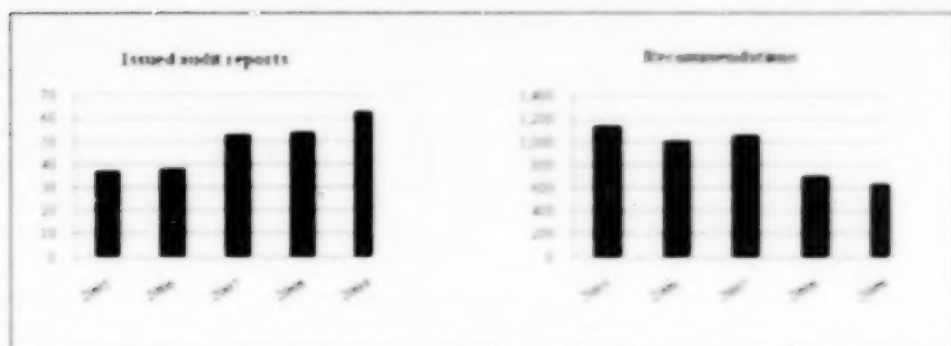
(b) *Safety and security*. While the audits showed that safety and security procedures were adequate in 67 per cent of 21 offices, they also identified issues such as incomplete mandatory security training (seven offices), and noncompliance with minimum operating security standards (four offices).

(c) *NGO/NIM advances*. While the audits showed that controls relating to NGO/NIM advances were functioning well in 64 per cent of 14 offices, there were advances overdue for more than six months noted in six offices.

Multi-year trends in audit issues

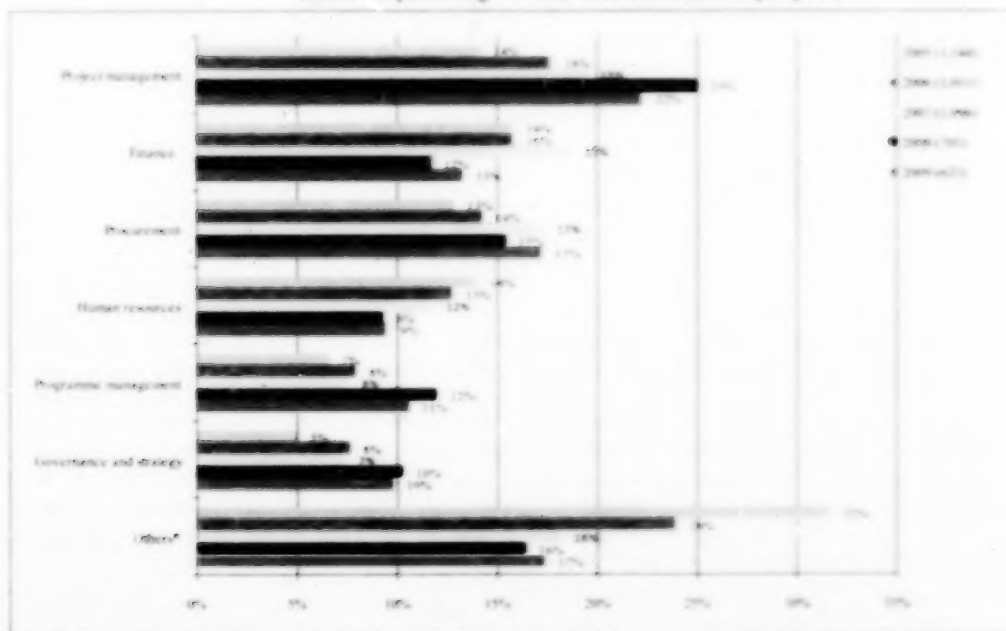
29. Over the five-year period from 2005 to 2009, the number of country office audit reports had increased significantly. From 37 and 38 in 2005 and 2006, to 53 and 54 in 2007 and 2008, the number of country office audit reports further increased to 63 in 2009. However, the number of audit issues and corresponding recommendations was not directly reflective of the number of audits completed. While the number of audit recommendations in 2005, 2006 and 2007 exceeded 1,000 per year, the number declined substantially in 2008 due to deliberate efforts by OAI to make the audit reports more focused on matters considered most significant for the country office and/or UNDP in general. Hence, in 2008, there were only 701 recommendations compared to 1,066 in 2007. The number of recommendations declined further in 2009, to 633, despite the increase in the number of audits completed – from 54 in 2008, to 63 in 2009 (see figure 4).

Figure 4: Number of country office audits and audit recommendations for the five-year period from 2005 to 2009



30. When analysing audit issues, it is necessary to consider the number of recommendations issued in a particular audit area, as well as the relative significance of recommendations in an area to the total number of recommendations issued in a particular year. For the five-year period, as noted in the previous OAI annual reports (in addition to the current period), the majority of audit recommendations were in the areas of: (a) project management; (b) finance; (c) procurement; and (d) human resources, which in the aggregate comprised 61 per cent of the 4,555 recommendations issued during the period. A total of 864, 706, 692 and 539 recommendations, respectively, were issued in these four areas during the period. The project management area stood out in 2008 and 2009 in terms of the percentage of total recommendations issued (see figure 5).

Figure 5: Trend of audit issues from 2005 to 2009
(based on percentage of total recommendations per year)



*Includes the following audit areas: general administration, information and communication technology, partnerships and resource mobilization, United Nations coordination.

31. Analysing these four major areas showed that, during the five-year period from 2005 to 2009 (see figure 5), project management issues reached a peak in 2008, comprising as much as 25 per cent of total recommendations that year, but declined in 2009, to 22 per cent. Finance issues reached a peak in 2007 at 19 per cent of total recommendations, but declined sharply in 2008 to 12 per cent, then increased slightly in 2009 to 13 per cent, which was still below the 2005 level of 16 per cent. Procurement issues fluctuated – the 2 per cent increase from 2008 to 2009 can be attributed to the increased focus of OAI in this area, which included designating procurement as a thrust area in country office audits. Human resources issues have continually decreased, from 14 per cent in 2005, to 9 per cent in 2008 and 2009. The statistics also reflected the extent of focus by OAI on these areas, as they were considered key areas for proper management of resources.

32. The nature of the findings in each of the areas varied from office to office, but a number of findings appeared to be re-occurring for more than two years, including:

- (a) Project management – Absence or incomplete implementation of annual monitoring plans; non-use or ineffective use of the enterprise resource planning system (Atlas) as a project monitoring tool; insufficient frequency of, and/or reporting on, field visits; deficiencies in project implementation resulting from poor or ineffective project design, appraisal and/or approval mechanisms;
- (b) Finance – Weaknesses in bank reconciliation processes; and incomplete supporting documentation for payments;
- (c) Procurement – Ineffectiveness of contracts, assets and procurement committees/advisory committee on procurement; and weak country office procurement management capacity;
- (d) Human resources – Weakness in the recruitment of personnel, with processes lacking transparency and competitiveness; and inadequate documentation to support the recruitment process.

33. Audits showed that the main causes of issues in the four major areas included the lack of guidance or supervision, or the lack of corporate policies or procedures. It should be noted, however, that OAI follow-up procedures (see chapter VII) showed that appropriate actions have already been taken, or are being taken, by management to address the aforementioned audit issues.

Audit of projects financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria

34. During 2009, projects financed by the Global Fund and managed by UNDP as principal recipient received increased audit attention. OAI issued four reports pertaining to two project audits in Africa and two in the Arab States. The majority of audit issues were identified in the programme management and procurement areas, which together comprised 68 per cent of the 46 recommendations emanating from these four audits. Regarding programme management, the critical issue was poor monitoring and evaluation systems. OAI recommended measures, such as recruiting appropriately qualified and trained staff, ensuring submission of required reports by sub-recipients, ensuring approval of the monitoring and evaluation plan, and conducting regular field visits and systematic follow-up. A critical issue related to procurement was the delay in procuring non-standard medicines against opportunistic infections, as well as antiretroviral treatments (drugs used to treat HIV-infected individuals to reduce the effects of the virus), anti-malarial drugs, surgical items, HIV test kits, and bed nets. The delay in procurement caused temporary stock depletion. OAI recommended measures, such as strengthening the internal capacity of the procurement team, effective planning to ensure adequate reserve stock, and implementing a reliable drug information system. OAI follow-up procedures showed that appropriate management actions have been taken (or are being taken) to address the audit issues, including corporate measures to strengthen and improve the effectiveness of UNDP procurement activities.

35. In planning and conducting audits of Global Fund projects, OAI cooperated and coordinated its work with the Office of the Inspector General (OIG) of the Global Fund. For one major country programme, OAI and the OIG conducted concurrent audit missions, with OAI covering UNDP activities (as principal recipient) and OIG covering all other aspects of the Global Fund grants.

Audit of projects directly implemented by UNDP

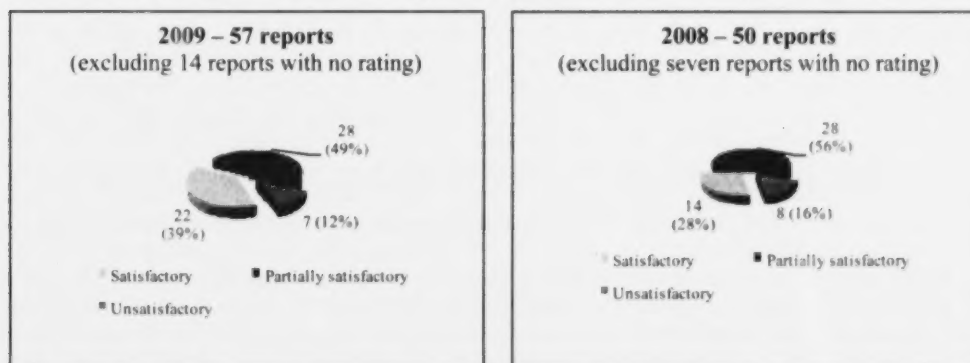
36. A total of 11 audit reports were issued dealing with DIM projects managed by country offices in Asia and the Pacific, the Arab States, and Latin America and the Caribbean regions. A majority of audit issues related to project management, finance, and programme management, which comprised 64 per cent of the 173 recommendations resulting from those 11 audits. In project management, there were recurrent issues of non-compliance with the UNDP programme and operations policies and procedures, memorandums of understanding, or cooperative agreements. There were various issues relating to finance and programme management, which were generally non-recurring. OAI follow-up procedures showed that appropriate management actions have been taken (or are being taken) to address these audit issues.

VI. Audit ratings

37. At the conclusion of each audit, OAI generally assigns an overall audit rating in terms of its assessment of governance, risk management, and the internal control processes. Special audits, follow-up audits, and consolidated reports on thrust areas do not normally lend themselves to an overall audit rating, as they are focused on specific areas with restricted audit objectives. In 2009, 14 reports did not contain ratings. Of the remaining 57 reports, seven (or 12 per cent) contained an 'unsatisfactory' rating, comprising five audits at country office level and two at headquarters (see figure 6).

38. Compared to 2008, the number of headquarters and country office audits with 'unsatisfactory' ratings decreased from 16 to 12 per cent. Similarly, those with 'partially satisfactory' rating decreased from 56 to 49 per cent. Audits with a 'satisfactory' rating increased significantly from 28 to 39 per cent.

Figure 6. Number of audit reports issued in 2009 and 2008, by audit rating



39. To closely monitor country offices and headquarters units rated 'unsatisfactory', OAI conducts on-site follow-up audits in addition to periodic desk reviews of the implementation status of audit recommendations. OAI has included follow-up or comprehensive audits of all seven offices rated 'unsatisfactory' in 2009 in its 2010 audit workplan.

40. After three years of implementing the harmonized audit rating system, which was introduced in January 2007, the internal audit services of UNDP, UNFPA, UNOPS, United Nations Children's Fund (UNICEF), and World Food Programme (WFP) revisited the existing definitions and agreed on a revision, which is expected to contribute to more consistency in the application of the audit ratings, including a clearer focus on the audited entity.

41. The revised definitions, effective starting 1 January 2010, are:

- (a) 'Satisfactory' – Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity;
- (b) 'Partially satisfactory' – Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity;
- (c) 'Unsatisfactory' – Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

VII. Follow-up on audit recommendations

42. In view of the continuing concern of the Executive Board and UNDP senior management over long outstanding recommendations, particularly those 18 months or older, OAI stepped up its efforts in monitoring actions taken by audited offices to implement recommendations. In addition to the usual semi-annual desk reviews on the implementation status and on-site follow-up audits of those with 'unsatisfactory' ratings, a number of ad hoc desk reviews were conducted in 2009. The efforts resulted in closer interaction with the offices and provision of OAI advisory services, as deemed necessary, to ensure that appropriate action was taken to implement the recommendations.

43. On-site follow-up audits generally showed significant progress of the office after the initial audit. Four of the eight offices rated 'unsatisfactory' in 2008 had fully implemented the audit recommendations by 31 December 2009, and the implementation rate for the remaining four offices ranged from 75 to 96 per cent, indicating management responsiveness to audit recommendations. As of 31 December 2009, the overall combined implementation rate for headquarters and country offices audits was 90 per cent. Based on experience, 100 per cent implementation is achieved within an average of 18 months after the audit report has been issued.

44. At the end of 2009, there were a total of 56 recommendations that remained unresolved for 18 months or more. Those 56 represent only 0.98 per cent of the total recommendations made from 1 January 2004 up to 30 September 2009. Of the 56 recommendations, 13 pertained to headquarters units and 43 to 21 country offices. Forty-four (or 78 per cent) of these 56 recommendations related to audit reports issued in 2007 and early 2008. Of the 56 recommendations, 30 (or 54 per cent) were ranked high priority. An in-depth review of the long outstanding high priority recommendations (see annex) showed that the reasons for full implementation delay were mainly due to factors external to the offices concerned, such as assistance from/involvement of headquarters units (27 per cent) and those completely outside UNDP (host Government, country situation, and other United Nations organizations), the latter comprising a combined 23 per cent. Another main reason was lack of financial or human resources (24 per cent). Other causes noted were slow implementation, or that actions taken did not produce the intended results (20 per cent), and a lack of (or inadequate) action by the offices concerned (6 per cent).

45. One important issue was recovery of outstanding Government contribution to local office costs (GLOC). The arrangement for collection from host Governments of their contribution towards the costs of UNDP country offices is stipulated in UNDP financial regulation 9.01. This covers negotiations and the possibility of partial waivers of contributions. In the case of the latter, the authority to grant partial waivers by the Administrator is exercised in consultation with the Board. There were initially eight recommendations for collection of outstanding GLOC payments by country offices, some of which dated back to 2004. Four recommendations were subsequently closed, as the regional bureau concerned pointed out that the issue was beyond the control of the country offices concerned, that past efforts at collection failed, and that further attempts would not generate positive results for the foreseeable future, given the financial difficulties of the countries concerned. While one was implemented, three cases are still on the list of long outstanding

recommendations (see annex). OAI has brought to the attention of senior management the need for a corporate policy regarding long outstanding GLOC contributions where collection is unlikely. In the view of OAI, such a policy needs to take into account international public sector accounting standards (IPSAS), which requires that financial assets determined to be impaired must be appropriately disclosed. The Bureau of Management has confirmed that a policy review of GLOC will be conducted, which will include IPSAS considerations.

VIII. Advisory services

46. OAI continued to advise all levels of UNDP management at headquarters, regional centres, and country offices. For example, it reviewed and advised management on audit and investigation clauses in agreements, such as multi-donor agreements, cost-sharing agreements, letters of agreement, and letters of understanding between UNDP and development partners. OAI also provided guidance to country offices on verification missions carried out by representatives of the European Commission in accordance with the financial and administrative framework agreement.

IX. Audits for the United Nations Development Fund for Women

47. The December 2008 agreement between OAI and UNIFEM on the provision of internal audit and investigation services includes establishing an OAI auditor post funded by UNIFEM. Accordingly, the auditor dedicated to UNIFEM audits, joined the organization in August 2009. This new position, based in New York, will ensure adequate audit coverage of UNIFEM activities, at its headquarters and in the field.

48. Two reports were issued in 2009 relating to the audits of the sub-regional programme offices for Central Africa, and for East and Southeast Asia. The two offices recorded programme and management expenditures totalling \$19.7 million. The audits reviewed areas of governance and strategic management, programme activities (programme management, partnership and resource mobilization, and project management) and operations (human resources, finance, procurement, information and communication technology, general administration, and UNDP support to UNIFEM operations). The audits resulted in a 'satisfactory' rating for one office, and a 'partially satisfactory' rating for the other office.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

49. In 2009, OAI applied the same risk assessment methodology initiated in 2008 for selecting the NGO/NIM projects to be audited. The 2009 audits, performed by auditors appointed by the country offices, covered expenditures incurred in the fiscal year 1 January to 31 December 2008 on NGO/NIM projects. A total of 1,811 audit reports for fiscal year 2008, from 127 country offices, were expected to be received in 2009 and total \$1.8 billion³, compared to 1,765 reports covering \$2 billion from 122 country offices for fiscal year 2007.

50. As of 31 December 2009, OAI received 1,748 (97 per cent) of the audit reports required, which encompassed project expenditures totalling \$1.9 billion (70 per cent). Considering the 31 May submission deadline, 82 per cent were received as of 30 June 2009, versus 87 per cent as of 30 June 2008. Three cases of non-submission by offices were referred to senior management.

51. In 2009, with assistance from the UNDP Office of Information Systems and Technology, OAI introduced significant improvements to its web-based comprehensive audit report and

³ Seventy-seven per cent pertained to projects implemented by national institutions, 3 per cent were projects implemented by NGOs, and 20 per cent were projects implemented by UNDP but where either a national institution or an NGO was designated as a responsible party to deliver a number of the components of a project.

recommendation database system – known as 'CARDS'. All the NGO/NIM audit reports, related observations and action plans, and OAI review of the reports are now integrated into CARDS. This new system is expected to bring tangible improvements to the overall NGO/NIM audit process, as well as greater organizational effectiveness. In 2009, however, it was anticipated that the users would have to adjust to the change in processes, resulting in temporary delays.

52. OAI review of NGO/NIM audit reports cover four elements:

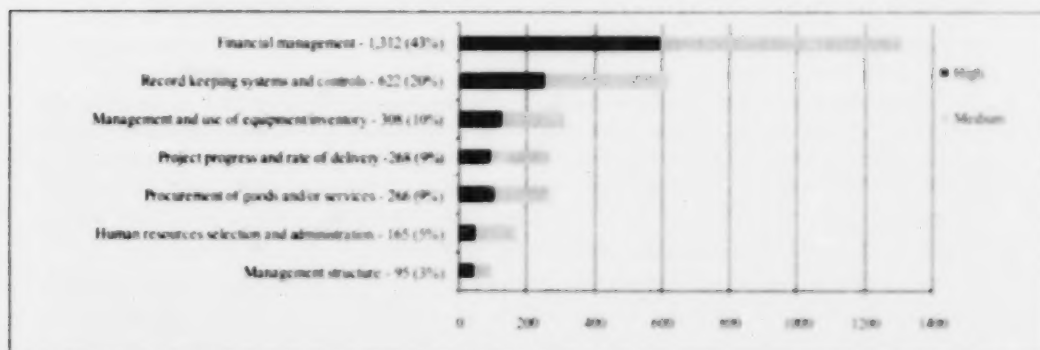
- (a) *Audit opinion and net financial impact.* OAI measures the net financial impact of the audit qualifications as a percentage of the expenditure in the combined delivery reports.
- (b) *Audit outcome.* OAI reviews the audit findings, including their risks, severity, and possible impact on the overall project management and implementation.
- (c) *Audit scope.* OAI reviews the adequacy of audit coverage in audit reports of NGO/NIM projects based on the minimum requirements set out in the terms of reference of the auditors.
- (d) *Audit administration.* OAI reviews how the audit was administered by the country office, in terms of efficiency and effectiveness.

53. The results of the review by OAI are summarized in review letters sent to the country offices, highlighting shortcomings and drawing attention to areas requiring immediate action. In 2009, OAI exceeded its target of issuing 75 per cent of the review letters by 30 September 2009. At 31 December 2009, review letters were issued for 124 (98 per cent) out of the 127 country offices. The three remaining review letters could not be issued on time as the offices concerned were not able to have the audits completed by the end of 2009.

Key NGO/NIM audit issues

54. OAI categorizes audit issues concerning NGO/NIM projects into seven areas. Out of the 1,748 audit reports received and reviewed in the context of the aforementioned four elements, OAI conducted a more in-depth review of \$1.6 billion (84 per cent) of the audited expenditures and some 3,306 audit issues. The majority (60 per cent) of these issues were assessed to be of 'medium' priority and 69 per cent of the issues pertained to financial management and record-keeping systems and controls (see figure 7).

Figure 7. Distribution and prioritization of NGO/NIM audit issues for fiscal year 2008
(total recommendations: 3,036)



Audit opinions and net financial impact

55. Overall, the NGO/NIM auditors found the financial statements to be presented fairly, and thus issued an 'unqualified' opinion in respect of \$1.8 billion (95 per cent) of the total \$1.9 billion of audited expenditures. OAI analysed the reports with 'qualified' or 'adverse' opinions, or with a 'disclaimer', and quantified the direct financial impact of audit qualifications to be \$9.5 million.

which is equivalent to 0.5 per cent of the total audited expenditures. This represented an improvement compared to the impact of audit qualifications in previous years: \$14 million (0.7 per cent) for fiscal year 2007, and \$11.6 million (0.7 per cent) for fiscal year 2006.

56. The audit qualifications in two country offices accounted for 48 per cent of the total net financial impact of \$9.5 million. In one of the two offices, \$2.1 million in expenditures for two projects could not be verified due to material differences between the documents made available to the auditors, and the expenditures recorded in the books. In the second country office, the audit of one project, with \$2.5 million in expenditures, identified material discrepancies such as erroneous recording of expenditures and the absence of supporting documents, which resulted in a disclaimer of audit opinion.

Harmonized approach to cash transfers

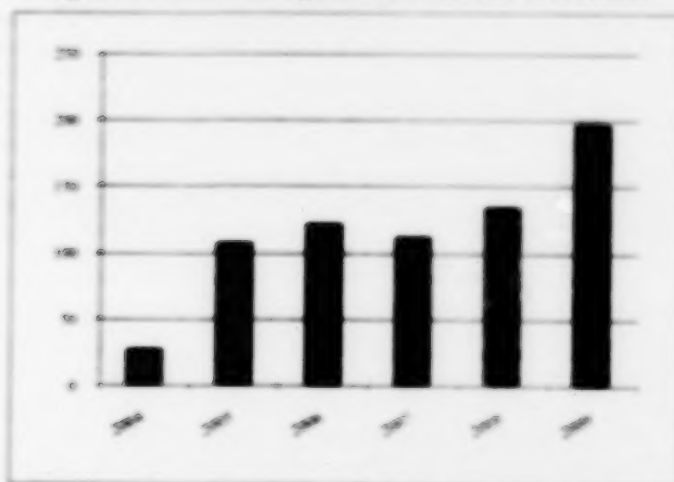
57. OAI reviewed the documentation submitted by country offices planning to move from the NGOENIM audit approach, to the harmonized approach to cash transfers (HACT) audit approach. Due to the growing importance of HACT, and its scope of application covering more than one organization, OAI agreed with the internal audit services of UNFPA, UNICEF and WFP on a framework for cooperation between the internal audit services of United Nations organizations in auditing the implementation of HACT at the country level, which includes coordination and sharing of information, audit approach, and scope. In November 2009, based on this framework, UNDP, UNFPA and UNICEF conducted a joint audit of HACT implementation in Vietnam.⁴ Additional joint reviews of HACT implementation are planned for 2010.

XI. Investigations

58. Since the establishment of a dedicated UNDP investigation function in 2004, the number of complaints received by OAI has continuously increased (see figure 9). In particular, the steep increase seen between 2004 and 2005 was due to the opening of the investigations hotline (May 2005), which provided a confidential and easy way to report complaints of wrongdoing. There was another marked increase in 2008, which can be attributed mainly to the transfer of responsibility for investigating allegations of workplace harassment and abuse of authority from the Office of Human Resources to OAI. Another sharp and unexpected increase in complaints occurred in 2009 from 135 to 199 or more than 47 per cent (see figure 8). A detailed analysis of the unexpected growth in 2009 showed that this was due to varied reasons.

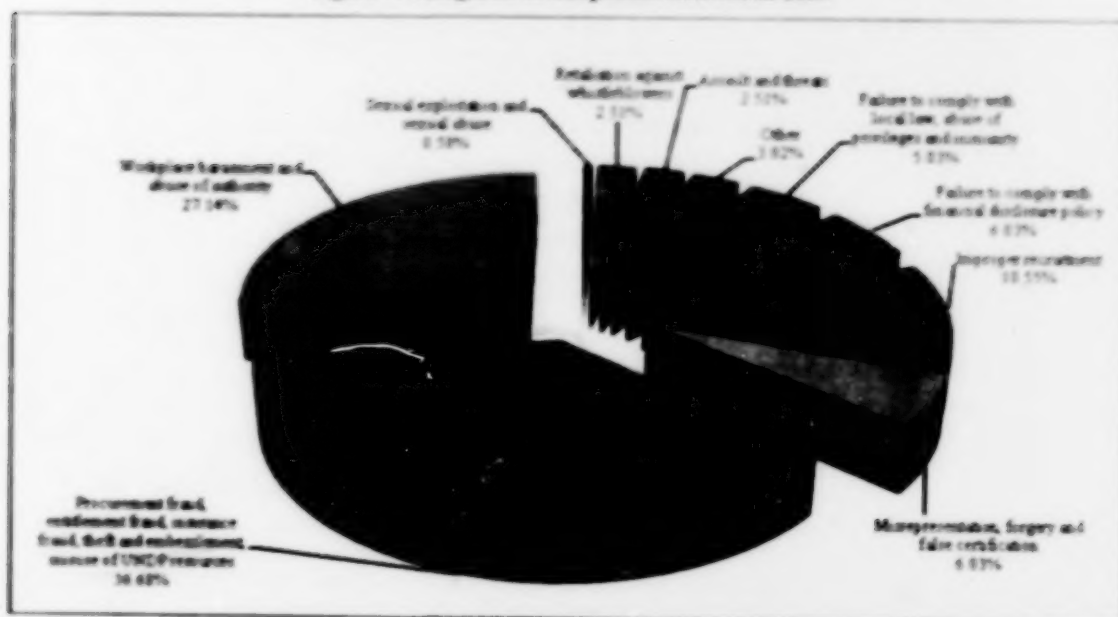
⁴ The final report will be issued jointly by the three internal audit services involved.

Figure 8. Number of complaints received from 2004 to 2009



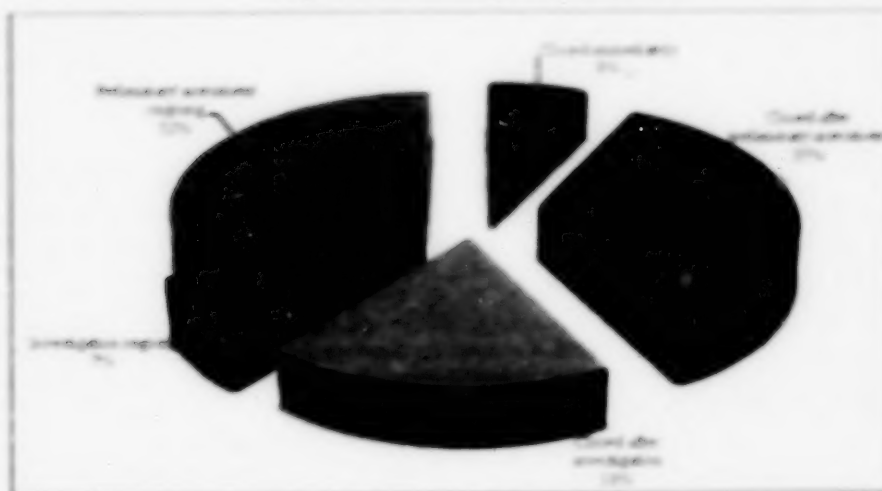
59. Of the 199 cases received in 2009, 73 (37 per cent) involved some type of financial irregularities (procurement fraud, entitlement fraud, insurance fraud, theft and embezzlement, and misuse of UNDP resources), followed by allegations of workplace harassment and abuse of authority (54 cases or 27 per cent), and allegations of improper recruitment and other staffing decisions (21 cases or 11 per cent). Allegations of retaliation against whistleblowers, which are investigated after the determination of the Ethics Office of a 'prima facie' case, constituted 3 per cent of the cases received in 2009. Other categories (misrepresentation, forgery and false certification, failure to comply with financial disclosure policy, failure to comply with local laws, abuse of privileges and immunities, assaults and threats, other) constituted the remaining 22 per cent (see figure 9).

Figure 9. Categories of complaints received in 2009



60. In addition to the 189 cases received in 2008, 83 open cases were carried forward from 2007, resulting in a total caseload of 282 in 2008. Of these 282 cases, 23 (8 per cent) were closed immediately, as they were clearly unfounded. A total of 99 (35 per cent) were closed after a preliminary assessment determined that no investigation was warranted. Fifty-two (18 per cent) were closed after full investigation, of which 38 (73 per cent of the 52) resulted in an investigation report, establishing evidence of wrongdoing. As of 31 December 2008, 89 cases (29 per cent of the total 282) were still undergoing preliminary assessment, while in 23 cases (7 per cent) an investigation was ongoing (see figure 10).

Figure 10. Caseload processed in 2008



61. Significant investigation cases that were referred to the Legal Support Office in 2008 for appropriate action were: (a) five cases of procurement fraud; (b) three cases of theft and embezzlement; (c) two cases of entitlements fraud; (d) two cases of insurance fraud; and (e) one case of sexual exploitation.

62. In addition to the drastic increase in the number of new complaints, the procedural standards for conducting investigations have been further strengthened, in response to the new system of administration of justice in the United Nations that became effective on 1 July 2009. The level of scrutiny by the newly established United Nations Dispute Tribunal is much higher and requires thorough documentation of all steps taken and all considerations given in the investigations process. The Tribunal may request investigative files, supplemental statements, and testimony from investigators years after the investigations.

63. As a consequence of a drastically increased caseload with resources remaining at the same level as in 2008, the open caseload continued to be large and there have been unavoidable delays in completing investigations in 2009. However, OAI is convinced that the quality of the investigative process and investigation reports is more important than ever, and cannot be sacrificed for the sake of expediency. To ensure a systematic and structured approach, OAI issued new investigation guidelines and is strengthening internal processes through standard operating procedures. OAI is also exploring other alternatives on how best to use limited investigation resources considering an ever increasing caseload.

VII. Overall conclusion and framework for the future

64. The results of the audits of headquarters units, country offices, functions, UNDP projects, and Global Fund projects, provide a reasonable assurance to the Administration and the Executive Board that government, risk management, and internal control processes in UNDP are adequately controlled and functioning well. Where improvements were needed, UNP recommendations have been well received and expeditiously implemented by all levels of UNDP management.

65. UNP is facing various challenges in 2011 due to the revised budget allocations for the biennium 2010-2011, as well as increasing requests from donors for assurance on their projects. On the tight timeline for completing reviews of UNDP/UNEP project audit reports, increasing demands from the Global Fund for mandatory annual audits of additional subgranted countries, more stringent requirements for investigative processes due to the new system of administration of justice, continuous increases in mounting complaints, and the number of serious fraud cases. Nevertheless, UNP stands ready to continue providing high quality audit and investigation services.

66. In 2011, UNP will oversee more cross-cutting themes in its country office audits, such as UNCT implementation, human resources and environment, procurement, travel, and PMA procedures. It will also increase its focus on donor relations in the medium-term. UNP expects to complete audit coverage of all headquarters functions and all major corporate functions. It will adopt a more structured and risk-based approach to auditing UNDP projects. UNP will continue to emphasize quality rather than quantity in providing its services. To meet emerging risks and changing practices in 2011, its workplace will remain flexible and adaptable. Though the three-year UNP strategy for 2009-2011 remains valid, it sets out the direction for UNP in providing UNDP with an effective system of independent and objective internal oversight to meet the organization's achieving its goals and objectives.



**Executive Board of the
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Programme and of the
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General audit and oversight

**Activity report for 2009 of the Internal Audit and Investigations
Group of the United Nations Office for Project Services**

Summary

The Director of the United Nations Office for Project Services Internal Audit and Investigations Group submits this activity report on internal audit and investigation services for the year ended 31 December 2009 to the Executive Board through the Executive Director of the United Nations Office for Project Services. The response of UNOPS management to this report is presented separately as per Executive Board decision 2006/13.

The year 2009 marks the second full year of operation for the Internal Audit and Investigations Group, previously named the Internal Audit Office.

Elements of a decision

The Executive Board may wish to:

- (a) *Take note of the annual report of the Internal Audit and Investigations Group for 2009; and*
- (b) *Take note of the annual report of the Strategy and Audit Advisory Committee for 2009 (in line with Executive Board decision 2008/37).*

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I. Introduction

1. The Internal Audit and Investigations Group, previously named the Internal Audit Office, is pleased to provide the Executive Board, through the Executive Director, with the present activity report on the United Nations Office for Project Services (UNOPS) internal audit and related services for the year ended 31 December 2009. This report contains details pursuant to Executive Board decision 2008/13, specifically, (a) a list of the high-priority findings and the ratings contained in audit reports, (b) a table displaying unresolved audit recommendations by year and category, and (c) an explanation of findings that have remained unresolved for 18 months or more.

2. The year 2009 represents the second full year of operation for the Internal Audit and Investigations Group. In 2009, the Internal Audit and Investigations Group maintained the significant increase in the internal audit coverage of UNOPS over prior years that had been noted in 2008, enhancing the overall internal control environment of the organization. As of 1 September 2009, the Internal Audit and Investigations Group assumed a centralized and dedicated role in the management and conduct of investigations throughout the organization.

3. The Internal Audit and Investigations Group reports directly to the Executive Director of UNOPS and assists him in discharging his accountability. In this regard, it provides assurance, offers advice, recommends improvement and helps to enhance the risk management, control and governance systems of the organization. It also seeks to promote and reinforce tight internal controls and manage risk within the organization. Additionally, the Internal Audit and Investigations Group endeavours to support management in the application of UNOPS general policies and objectives as described in the 2010-2013 business strategy and the 2010-2011 budget.

4. The Internal Audit and Investigations Group continued to report on its activities to the UNOPS Strategy and Audit Advisory Committee during 2009. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2009 is attached as annex 3 to the present report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

5. The UNOPS mandate for internal audit is described in the UNOPS Financial Regulations and Rules (DP/2009/4). Regulation 5.03 and Rule 105.06 define the role of the UNOPS Internal Audit and Investigations Group.

6. The mandate, function and standards of the UNOPS Internal Audit and Investigations Group are contained in its charter, issued by the Executive Director as Organizational Directive No. 25.

7. The role of the Internal Audit and Investigations Group is further defined in Organizational Directive No. 15 (Revision 1) – UNOPS Global Structure. In addition to providing internal audit services to UNOPS, the Internal Audit and Investigations Group leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative instructions.

B. Institute of Internal Auditors external assessment

8. In the performance of its internal audit function, the Internal Audit and Investigations Group adheres to the International Standards for the Professional Practice of Internal Auditing, issued by The Institute of Internal Auditors, as adopted by all internal audit services throughout the United Nations system. During 2009, the Internal Audit and Investigations Group underwent an external assessment of its compliance with the International Professional Practices Framework of The Institute of Internal Auditors. As a result of a positive assessment, the Internal Audit and Investigations Group can now state that it “[c]onforms with the International Standards for the Professional Practice of Internal Auditing”.

C. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

9. In 2008, the Internal Audit and Investigations Group coordinated its internal audit work with the United Nations Board of Auditors and made its results available to the Board. Its annual planning process also included consultation with the Board.

10. As appropriate, the Internal Audit and Investigations Group coordinates its work with the Office of Internal Oversight Services and with internal audit services in other United Nations organizations.

III. Approved annual internal audit work plan for 2009

11. The 2009 work plan was based primarily on the overall objective of assisting the Executive Director in having assurance that internal controls and procedures function as envisaged. The work plan contained detailed discussion on the planning approach, objectives, risk assessment, areas to be covered, nature of audit services, operating budget and transition arrangements. It was developed taking into consideration the recent issues affecting the UNOPS internal systems and business.

A. Internal audit risk-assessment model

12. Per UNOPS Financial Regulation 4.01, the Executive Director must maintain a risk-management system. Furthermore, per Financial Rules 104.01 and 104.02, business heads should annually define their major risks and business opportunities as well as their risk tolerance. It is noted that UNOPS does not yet have in place a structured, organization-wide system of risk management. Components of such a system exist and are functioning, for example in engagement acceptance and pricing, but the Internal Audit and Investigations Group is not yet able to rely on such components as a basis for producing a risk-based audit plan. In the absence of such reliance, it has developed its own risk-assessment model. This model will continue to be used until such time as management can present a structured, organization-wide risk-management system. In this regard, it is noted that in the second quarter of 2010, management, in consultation with the Internal Audit and Investigations Group, has embarked on establishing such a risk-management system. In advising and supporting this process, the Internal Audit and

Investigations Group will refer to and adhere to technical guidance provided by the Institute of Internal Auditors.¹

13. In preparing the work plan for 2009, the Internal Audit and Investigations Group refined its risk-assessment model for UNOPS compared to that of 2008 to ensure greater consistency between internal audit priorities and the goals of UNOPS management. The risk-assessment model also takes into account available resources, any update to the audit universe, and the objective of auditing various functions and locations within the organization in a rolling three-year period. The work plan also reflects the objective of broadening the focus of the Internal Audit and Investigations Group from assurance and compliance-based auditing to include more performance-based auditing. Having a model for risk assessment is essential, given the diversity and range of UNOPS operations worldwide, the broad scope of internal audit coverage and the limited staff resources.

14. The risk-assessment model and approach taken by the Internal Audit and Investigations Group when developing its annual work plan was presented to the Strategy and Audit Advisory Committee for its review and comments during 2009. The Strategy and Audit Advisory Committee has commended the Internal Audit and Investigations Group on its 2009 annual work plan as well as the implementation of the work plan during 2009.

IV. Highlights of audit activities during 2009

15. The Internal Audit and Investigations Group released 61 reports during 2009 compared with 38 in 2008, and the results of its work are presented under three separate categories, reflecting the differences in approach, as follows:

- (a) Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group (6 reports);
- (b) Internal audit reports of project audits conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants (17 reports); and
- (c) Internal audit reports of audits of significant programmes managed and/or executed by UNOPS that were conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants (38 reports).

A. Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

16. During the year ending 31 December 2008, six internal audit reports were completed by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director, as detailed in table 1.

¹ For example, *The Role of Internal Auditing in Enterprise-wide Risk Management*, The Institute of Internal Auditors, 2004.

Table 1. List of internal audit reports completed by the Internal Audit and Investigations Group in 2009

Location or function	Rating	Score ²
Sri Lanka Operations Centre	Partially satisfactory	5.75
Human Resources – Individual Contractors Agreement (ICA) Policy	Unsatisfactory	3.85
Peru Operations Centre	Partially satisfactory	6.35
Pristina Project Centre	Partially satisfactory	7.21
Indonesia Operations Centre	Partially satisfactory	6.15
Afghanistan Operations Centre*	Unsatisfactory	<3.99

* Joint special audit with UNDP Office of Audit and Investigations.

17. As at 31 December 2009, the Internal Audit and Investigations Group had commenced audits relating to UNOPS operations in Argentina, Iraq, Myanmar and Sudan. Additionally, an audit was being completed on the UNOPS reconciliation process of its inter-fund account with UNDP and UNFPA. Finally, an audit focused on the cross-cutting function of the UNOPS Procurement Practice Group had also begun.

Analyses of internal audit recommendations issued in 2009

18. Pursuant to Executive Board decision 2005/19, the Internal Audit and Investigations Group analysed each of the recommendations issued during 2009. The six internal audit reports issued generated 178 audit recommendations. It is noted that one recommendation may have more than one cause or more than one functional area. The analysis for the 2009 internal audit recommendations thus consists of 178 recommendations that can be analysed by importance, 225 by cause and 186 by frequency of occurrence in a functional area.

19. The number of internal audit recommendations decreased significantly in 2009 from 359 to 178. The average number of recommendations per audit report also decreased from 45 in 2008 to 30 in 2009. This reflects a deliberate attempt by the Internal Audit and Investigations Group to focus on matters of greater priority and urgency to management when making audit recommendations as well as the consolidation of similar audit recommendations in specific areas.

Categorization, by level of importance, of audit recommendations issued through internal audit reports in 2009

20. Of the 178 audit recommendations issued through internal audit reports in 2009, 56 (31 per cent) are considered to be of high importance, 112 (63 per cent) are of medium importance and 10 (6 per cent) are of low importance, as shown in table 2.³ The reduction in audit recommendations of high importance suggests progress by management in addressing the pertinent risks to which the organization is exposed. However, as noted below under "Causes of audit issues", it is clear that among the causes of audit issues, compliance with UNOPS policies and procedures remains an

² The overall level of internal control is based on a weighted rating of functions audited. "Unsatisfactory" reflects a score from 1.00 to 3.99; "partially satisfactory", from 4.00 to 7.99; and "satisfactory", from 8.00 to 10.00.

³ Definitions per DP/2007/38: "High": Action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization); "Medium": Action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences); and "Low": Action that is considered desirable and should result in enhanced control or better value for money".

area for improvement as its share of the causes of audit issues increased from 16 per cent in 2008 to 33 per cent in 2009.

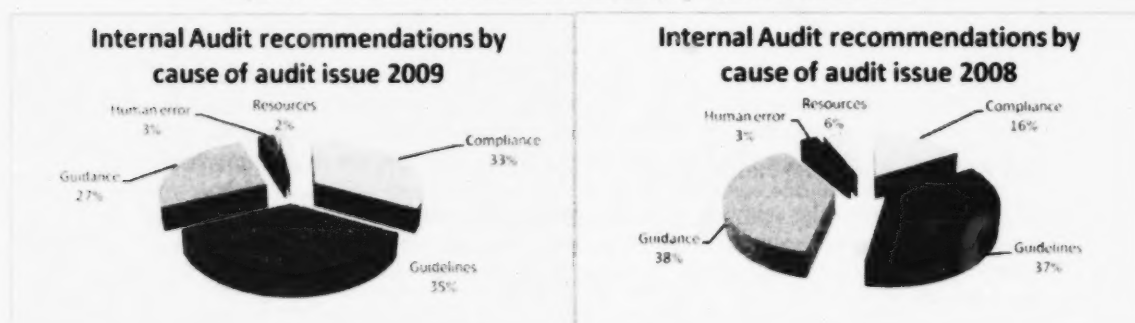
Table 2. Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations		Percentage of total	
	2008	2009	2008	2009
High	147	56	41	31
Medium	198	112	55	63
Low	14	10	4	6
Total	359	178	100	100

Causes of audit issues

21. An absence of written procedures to guide staff in performing their functions and failure to comply with prescribed UNOPS regulations (35 per cent and 33 per cent, respectively) are the main causes of the audit issues addressed in 2009 audit reports, as shown in chart 1. The other causes are inadequate or lack of supervision by supervisors (27 per cent), human error (3 per cent) and insufficient resources (2 per cent).

Charts 1 and 2. Audit recommendations, by cause of audit issue⁴



Frequency of occurrence of audit recommendations by functional area

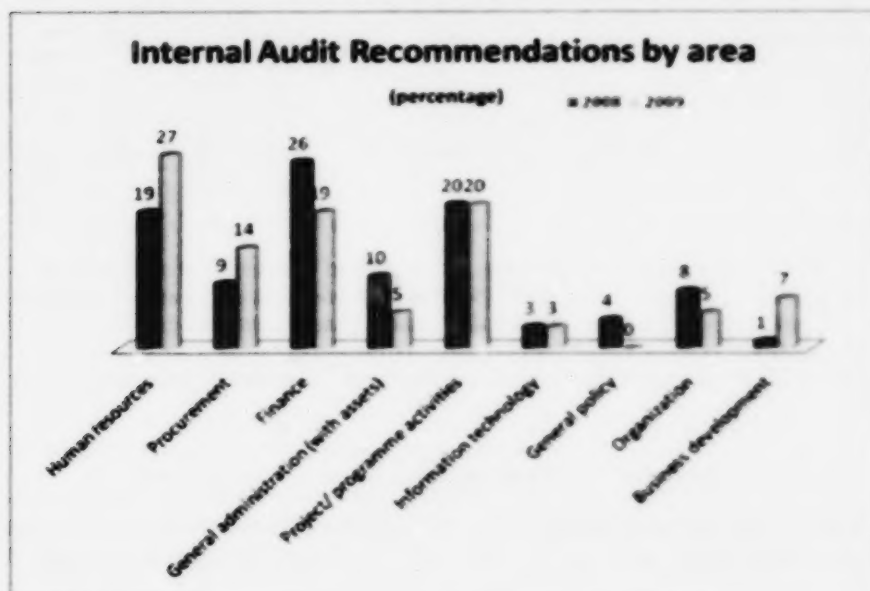
22. Further analysis of audit recommendations by frequency of occurrence by functional area has been carried out. As shown in chart 3, human resources accounted for 27 per cent of the total; project/programme activities, 20 per cent; finance, 19 per cent; and procurement, 14 per cent.

23. The top three areas in 2009 were similar to those of 2008, and, given the nature of UNOPS operations, are to be expected: human resources, project management and finance. However, the increase of nine percentage points in audit issues relating to human resources largely reflects the lack of compliance throughout the organization with the Individual Contractor Agreement Policy. Both procurement and business development increased as areas of audit cause in 2009

⁴ Definitions per DP/2007/38: "Compliance": Failure to comply with prescribed UNOPS regulations, rules and procedures; "Guidelines": Absence of written procedures to guide staff in performing their functions; "Guidance": Inadequate or lack of supervision by supervisors; "Human error": Mistakes committed by staff entrusted to perform assigned functions; "Resources": Insufficient resources (funds, skill, staff) to carry out an activity or function".

compared with 2008, reflecting the additional focus of the Internal Audit and Investigations Group on these areas.

Chart 3. Internal audit recommendations, by functional area



Key findings of internal audit reports

24. To supplement the analysis of audit recommendations provided earlier in this report, an indicative summary of the key findings relating to the audit recommendations contained in the internal audit reports issued during 2009 is provided below.

Auditee purpose, strategic direction and organizational management

25. In four internal audit reports, audit issues were noted relating to improvements required to the overall internal environment of the auditee. Examples include: unclear organizational structure and uncertain lines of authority; lack of dedicated terms of reference for the operation or project centre; and unclear, or an absence of, aligned job descriptions. In one instance, the internal audit report highlighted the need to provide guidance on transfer pricing and sharing of resources among various centres within the organization.

26. Management monitoring and communication systems: Insufficient or lack of documentation of the internal control and monitoring systems was noted in all internal audit reports. Additionally, the issue of insufficient or delayed reporting to partners, both financial and operational, was raised in four reports.

27. Delegation of authority: Delegation of authority was assessed in five audits during 2009. It was recommended that the system and forms used be updated, since many of the references in the then existing letters of delegation of authority sent to each individual concerned had been superseded and thus were no longer relevant, leading to uncertainty of responsibility in some cases.

28. *Business development:* The Internal Audit and Investigations Group now includes in its work plan of operation and project centres an assessment of the business development practices of the centre, with a view to commenting on its financial sustainability or growth potential. Audit observations raised for management consideration included: establishment of thresholds or optimal levels of project budgets to maintain portfolio viability; the need for greater scrutiny and consistent approaches in the development of projected pipelines; the need for greater awareness of, and involvement in, the annual target-setting process by the centres; and a need to diversify portfolios in terms of partners and services provided in certain locations.

Project management

29. *Closure of projects:* In five internal audit reports, it was noted that numerous projects had been operationally closed, but not financially closed within a time frame specified by the UNOPS Financial Regulations and Rules.

30. *Other project management issues:* Other issues noted in a majority of the internal audit reports issued during 2009 included: the need for greater compliance with Organizational Directive No. 22 relating to the organization's pricing policy; the need to develop guidance and tools to ensure such consistency and compliance; the need for greater monitoring of projects overspent against budgets; and weaknesses in meeting partner reporting requirements.

Finance

31. *Organizational structure:* In three internal audit reports, it was noted that there was a degree of uncertainty with respect to the reporting lines of the finance officers with respect to the finance practice as a whole, thus requiring that clear job descriptions be developed. Additionally, two internal audit reports noted that, given the current reporting lines within the Finance Practice Group, there exists a possibility that a regionally based finance officer may lack the necessary independence to adequately advise management.

32. *Financial procedures:* To safeguard the institutional knowledge developed by the Finance Practice Group in recent years and to ensure greater efficiency in its operations, it was noted in two internal audit reports that management should formally document and disseminate procedures governing all aspects of its work, which would form components of a finance operations manual in due course.

33. *Other issues relating to finance:* Other issues noted were: a need for guidance to mitigate any exposure to foreign exchange losses where project funds are denominated in currencies other than United States dollars; closure of remaining imprest accounts; lack of compliance with minimum standards governing the use and monitoring of petty cash; a need for regular review and validation of unliquidated obligations; and a need to reduce the dependency on data manipulation in the reporting and reconciliation processes to reduce the risks of human error.

Human resources

34. *Implementation of the Individual Contractors Agreement (ICA) modality:* All but one of the internal audit reports issued noted significant weaknesses in this regard. Examples of this include: overall lack of consistency in the application of the ICA policy across the organization; generally weak supporting documentation; weak support available relating to the calculation of fees; engagement, by certain locations, of ICAs from specific countries; a significant gender imbalance across the organization with respect to ICAs; lack of maintenance, in a majority of locations,

of a suitable roster of consultants from which to draw as needed; a need to reassess the continued use of, and investment in, the UNOPS ICA management system, GLOCON; and lack of inherent information technology controls, particularly input controls, in the GLOCON system.

35. Other audit observations relating to human resources that raised issues that may undermine the organization's commitment to the competence, expertise and performance of its personnel include: a lack of analysis of training needs and dedicated training plans for personnel at the operational level; a need to produce more timely and complete performance evaluation reviews for individual contractors; a need to increase the completion rate of performance appraisals for staff; and insufficient vetting of successful applicants' credentials when recruited for staff positions.

Procurement

36. Given its importance, procurement forms part of the audit work plan in the majority of audits conducted by the Internal Audit and Investigations Group. It was noted in a majority of internal audit reports issued in 2009 that the control activities pertaining to procurement could be strengthened by addressing the audit recommendations, including: lack of adequate procurement capacity and competency in some locations; development of clear and specific job descriptions for procurement officers; preparation of annual procurement plans; preparation and monitoring of detailed tracking lists recording all ongoing procurements; implementation of a monitoring mechanism to track the cumulative value of call-off orders under the organization's long-term agreements; development of a monitoring system to track the implementation of the Executive Chief Procurement Officer's criteria and conditions for the awarding of contracts; continued efforts to reduce the high rate of waivers noted in two locations; and implementation of a standard scoring and evaluation process for a similar procurement process across the organization.

General administration

37. Asset management: the control activities relating to asset management were mentioned in five of the internal audit reports released during 2009. In these reports, the following issues were noted as areas for improvement: a need to keep accurate and timely asset inventory lists, a need for periodic physical verification of assets and documentation of such, guidance on a consistently applied tagging system throughout the organization, and implementation of the asset management module in Atlas.

38. Information and communication technology (ICT): several issues relating to the management of ICT resources were noted in the 2009 internal audit reports, including: inadequate physical security of the network servers and data backups; inadequate physical environments for ICT resources; inadequate or inconsistent business continuity plans; the requirement to ensure that software licenses and warranties are current; and a need for guidance on the retention policy relating to electronic data.

39. Other administrative or operational issues: two audit reports noted significant weaknesses in the quality of the location's recordkeeping and knowledge management systems; there was a need for guidance to provide a consistent approach for the management of mobile telephones issued to personnel; and it was recommended that three locations audited in 2009 reassess their compliance with the minimum operational security standards.

Noted management responses

40. Notwithstanding management's response to the current report that is presented separately as per Executive Board decision 2006/13, it is noted that, in direct response to the internal audit report on the implementation of the Individual Contractor Agreement Policy, a dedicated taskforce was established by management, comprising personnel from human resources, project management, finance and legal. This taskforce presented to management a list of over 50 suggestions for changes to the Individual Contractor Agreement Policy and supporting mechanisms. To date, the Internal Audit and Investigations Group notes that management has now revised the Individual Contractor Agreement Policy, and the effectiveness of these revisions will be assessed during 2010.

41. The Internal Audit and Investigations Group notes similar action, revisions or new policies by management during 2009 and early 2010 that address various audit recommendations, including those relating to financial closure of operationally closed projects, delegation of authority, a centrally managed and maintained base of knowledge across multiple functions to be applied consistently throughout the organization, guidance on the provision and maintenance of guest houses in hardship locations, development of a strategic plan for the Finance Practice Group, guidance on asset-management, training and awareness programmes for the implementation of International Public Sector Accounting Standards, and guidance and development of tools to aid consistent costing of project budgets. Such measures will be taken into account when developing audit work plans in 2010 and beyond.

B. Internal audit reports of projects

Internal audit reports issued for projects

42. During the year ending 31 December 2009, 17 internal audit reports relating to specific projects were completed by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

43. The Internal Audit and Investigations Group relies on third-party professional auditing firms to conduct these audits on its behalf. This maximizes its capacity to focus on internal audits of UNOPS operations. All professional firms used have been pre-qualified by UNOPS to provide such services and they adhere to the terms of reference approved by the Internal Audit and Investigations Group. All audit reports prepared by such firms are reviewed by the Internal Audit and Investigations Group before finalization.

44. As seen in table 3, of the 17 internal audit reports for projects issued in 2009, nine expressed an audit opinion on the financial situation of related projects and provided a rating of internal control compliance, seven expressed an opinion on the financial situation only, and one provided a rating of compliance with internal controls only. Such variances in audit output are due largely to the requirements of the partner and primary stakeholder(s) concerned.

Table 3. Number of project audit reports issued, 2008 and 2009

	2008	2009
Audit reports issued expressing an opinion on the financial situation and rating the internal control environment	9	9
Audit reports issued expressing an opinion on the financial situation only	6	7
Audit reports issued expressing an opinion on internal control compliance only	12	1
Total	27	17

45. In line with Executive Board decision 2008/13 and as shown in table 4, by 31 December 2009, of the 16 project audit reports issued with an audit opinion of the financial situation of a project, 12 (75 per cent) included an unqualified opinion, compared with 60 per cent in 2008, and four (25 per cent) received qualified opinions, compared with 40 per cent in 2008. This positive decrease in qualified audit opinions is considered to be a result of better management preparedness for audits, audit firms being more knowledgeable about UNOPS operations, and a general improvement in the financial accuracy of project reports.

46. Results showed that the share of "unqualified" opinions on project financials increased by 15 per cent, yet "satisfactory" ratings of internal controls decreased by 16 per cent.

Table 4. Summary of audit opinions and ratings of internal controls for project audits, 2008 and 2009

Type of opinion or rating	Number of audit reports		Percentage of total	
	2008	2009	2008	2009
Audit opinion on financial situation of project				
Unqualified opinion	9	12	60	75
Qualified opinion	6	4	40	25
Total	15	16	100	100
Rating of overall level of internal control				
Satisfactory	6	3	46	30
Partially satisfactory	7	7	54	70
Unsatisfactory	0	0	0	0
Total	13	10	100	100

Project-related audit recommendations issued in 2009

47. The 17 project audit reports issued generated 247 audit recommendations. These are analysed by importance while 204 are analysed by cause and 236 recommendations can be analysed by frequency of occurrence in a functional area.

Categorization of audit recommendations relating to projects by level of importance

48. Of the 247 project-related audit recommendations issued in 2009, 60 (24 per cent) are considered to be of high importance, 138 (56 per cent) are of medium importance and 29 (12 per cent) are of low importance (table 5).

49. The year 2009 recorded a decrease in the number of audit recommendations of low importance and an increase in those of high importance. This is indicative of an effort by the Internal Audit and Investigations Group to have third-party professional firms increase their focus and reporting on issues of greater significance to management, and a consolidation of issues of lesser importance.

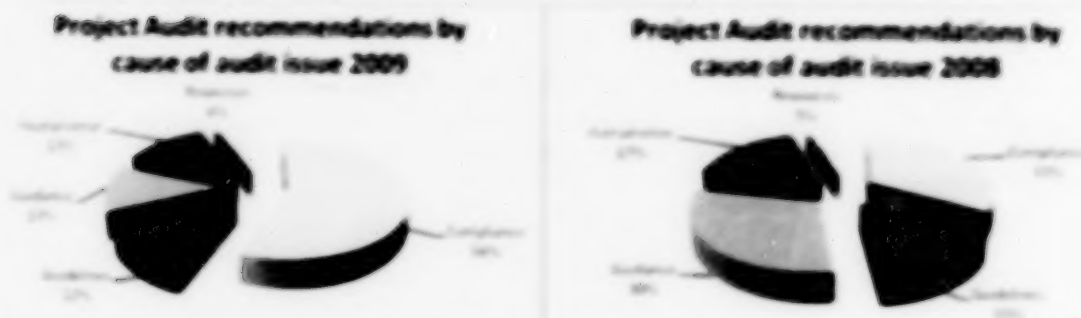
Table 5. Categorization of project audit recommendations, by level of importance

Level of importance	Number of recommendations		Percentage of total	
	2008	2009	2008	2009
High	47	60	23	24
Medium	88	138	44	56
Low	67	29	33	12
Total	202	247	100	100

Causes of audit issues

50. A failure to comply with prescribed UNOPS regulations, rules and procedures is the main cause of the audit issues recorded in 2009 project audit reports. Among the causes of audit issues, compliance increased significantly to 56 per cent in 2009 from 33 per cent in 2008, as shown in charts 4 and 5. This indicates that UNOPS may have increased its body of policy and guidance to support its operations over prior years but the implementation of such policy and guidance is inconsistent.

Charts 4 and 5. Project audit recommendations, by cause of audit issue¹



Frequency of occurrence of project audit recommendations by functional area

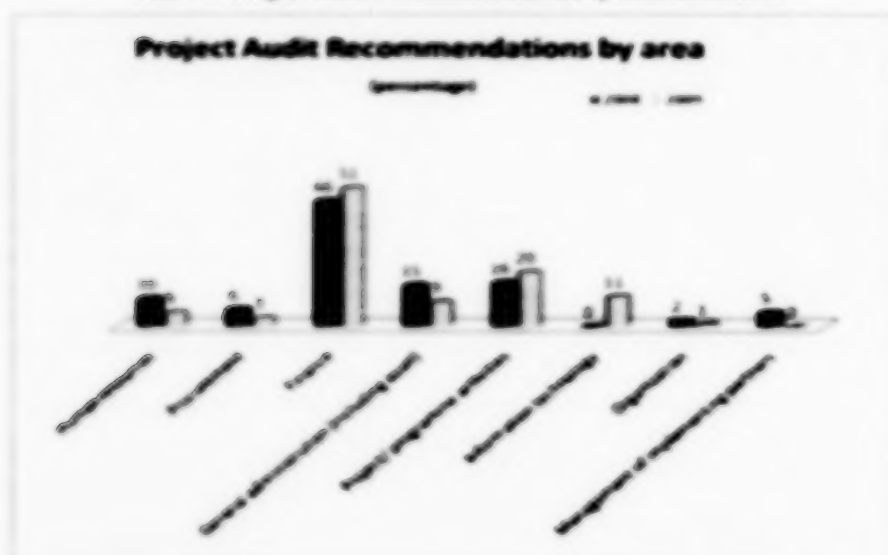
51. Further analysis of project audit recommendations by frequency of occurrence by functional area has been carried out. As shown in chart 6, finance accounted for 51 per cent of the total number of project audit recommendations; project and

¹ See footnote 3 for the definition of each cause.

programme activities, 26 per cent, information technology, 11 per cent, and general administration (including asset management), 9 per cent.

52. Compared with audits in previous years, the areas that appear to require the most improvement remained essentially the same: finance, and project and programme activities. A related result was noted in the annual UNOPS partner satisfaction survey for 2009, which indicates that "reporting timeliness" (mainly regarding financial reports) is the most significant area of partner dissatisfaction.

Chart 6. Project audit recommendations, by functional area



C. Internal audit reports of specific programmes

53. The Internal Audit and Investigations Group reports the commencement during 2009 of a dedicated and comprehensive audit programme focused on a partner programme executed by UNOPS, the Small Grants Programme.

54. The Global Environment Facility (GEF) Small Grants Programme was created in 1992 and is implemented by UNDP and executed by UNOPS. The Programme, which is now in Operational Phase 4 (2007-2010), supports projects that link to the GEF focal areas of land, biodiversity conservation, mitigation of climate change and the protection of international waters. UNOPS provides the following programme execution services for the Small Grants Programme: personnel recruitment, subcontracting, authorization of grant allocations and disbursements, budget administration and reporting, training and guidance to country-level staff, provision of legal advice, and internal oversight and audits.

55. During 2009, based on the request of GEF, as per the recommendation of a programme evaluation that an "audit schedule that ensures that all country programs can be audited at least once during every Operational Phase should be established and funds for audits should be allocated in each OP", the Internal Audit

and Investigations Group, in consultation with the UNOPS Small Grants Programme management team, engaged a third-party professional audit firm with a global presence, through a competitive tender process, to carry out the audits on behalf of the Internal Audit and Investigations Group. The Internal Audit and Investigations Group provided quality control on the risk assessment and the units selected for audit, the audit work programme and the audit reports. The scope of the audit covered both compliance and management (functional) issues relating to the governance process, grants management process, finance, human resources, procurement and asset management. The Internal Audit and Investigations Group sought to provide an assurance to management that the key financial and operational controls were functioning as envisaged and bring to the attention of stakeholders any management or systemic issues relating to the control environment for macro-level decision-making so as to strengthen the control structure of the Small Grants Programme.

Internal audit reports issued for the Small Grants Programme

56. From 2003 to 2008, 16 internal audit reports were issued covering the Small Grants Programme in different countries.

57. Based on risk assessment, each of the 80 Small Grants Programme country programmes was categorized as either "very high", "high", "medium" or "low" risk and 39 of these country programmes were audited in 2009. Of these, 38 reports were issued in 2009, which contained 754 audit recommendations, of which 61 were categorized as "high" risk, 278 as "medium" risk and 415 as "low" risk.

58. All but four reports provided a "satisfactory" or "partially satisfactory" rating on either "internal controls" or "financial operations" or both. Four reports provided an "unsatisfactory" rating in one or both areas.

59. In terms of functional area, 396 (52 per cent) recommendations related to programme management, 275 (36 per cent) pertained to finance and the remaining 83 (9 per cent) related to asset management, human resources and procurement.

60. During 2010, an additional 40 Small Grants Programme country programmes are scheduled to be audited.

V. Other observations relating to 2009

A. Overall assessment of internal controls

61. The Internal Audit and Investigations Group currently does not provide an overall assessment of internal controls for UNOPS. At present, its assessment of internal controls is limited to each specific location or function audited.

62. However, it is noted that during the fortieth meeting of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, it was agreed that a working group would be set up with a mandate to report on the feasibility of establishing an assurance mechanism within the members' respective organizations. This mechanism may include the provision, by the head of the organization, of a reliable management assertion that indicates the extent to which governance, risk management and control processes are adequate. Internal audit would then provide independent and objective assurance as to the reliability of management's assertion.

B. United Nations Board of Auditors report

63. In the report of the United Nations Board of Auditors on UNOPS financial statements for the biennium that ended 31 December 2007 (A/63/5/Add.10 (SUPP)), three matters of emphasis were noted related to asset management, the unresolved current account with UNDP, and the recognition of revenue. The Internal Audit and Investigations Group has assessed their impact on the planning and conduct of internal audits as follows:

- (a) Asset management remains a constant focus for all audits conducted by the Internal Audit and Investigations Group;
- (b) The continued unresolved current account balance between UNOPS and UNDP in particular as at 31 December 2009 was noted. The Internal Audit and Investigations Group considered it equally important to assess measures in place to avoid unresolved differences in the future and these were assessed in 2009, with the resultant internal audit report issued in early 2010. The report also noted the good practice followed by UNOPS in its successful reconciliation and resolution process with the United Nations Population Fund; and
- (c) Changes in how revenue is to be recognised would further increase in importance during 2009 and 2010 with the implementation of the International Public Sector Accounting Standards.

C. Implementation of the International Public Sector Accounting Standards

64. UNOPS was scheduled to move from the use of the United Nations system accounting standards to the use of the International Public Sector Accounting Standards in preparing its financial statements from 1 January 2010. During 2009, a decision was taken by management to delay this date to 1 January 2012 in line with several other organizations.

65. UNOPS has established a project board and management team to oversee this process. The Internal Audit and Investigations Group participates in project board meetings on an advisory basis, with a view to providing quality assurance reports to the UNOPS Executive Director.

D. Increased audit coverage of significant programmes executed by UNOPS

66. In the 2008 annual report of the UNOPS Internal Audit Office (DP/2009/24), it was noted that the Internal Audit Office (now named the Internal Audit and Investigations Group) should endeavour to expand its audit coverage of specific and significant programmes executed by UNOPS on behalf of its partners.

67. Two programmes were identified, namely, the GEF-funded Small Grants Programme and the Mine Action Programme, which is funded by multiple partners. The details of the audit programme of the Small Grants Programme are provided earlier in this report. Audits of the Mine Action Programme began in Cyprus and Somalia, and the audit programme will be expanded in 2010.

E. Multi-donor trust funds

68. In 2008, UNOPS was appointed administrative manager of the Enhanced Integrated Framework Trust Fund, managed from the UNOPS office in Geneva. UNOPS is also the Fund Manager for the Three Diseases Fund in Myanmar. As indicated in the UNOPS strategic plan, this area of service will remain part of the UNOPS portfolio and service offering. The Internal Audit and Investigations Group follows the auditing framework developed by the United Nations Development Group Audit Subcommittee in maintaining due audit coverage of such portfolios.

VI. UNOPS Accountability Framework

69. In accordance with Organizational Directive No. 2: UNOPS Accountability Framework and Oversight Policies, the head of the Internal Audit and Investigations Group will report to the Executive Board on the resources available and required for the implementation of the present accountability framework.

70. The pillars of the UNOPS Accountability Framework and Oversight Policies that are internal to the organization include the Strategy and Audit Advisory Committee, the Internal Audit and Investigations Group, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the management's "balanced scorecard" programme, and the implementation of the UNOPS organizational directives.

71. The fundamental pillars of the UNOPS Accountability Framework and Oversight Policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, the United Nations Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

72. The Internal Audit and Investigations Group limits its reporting on this matter to those resources required for pillars internal to the organization only. It is noted that all bodies mentioned in the UNOPS Accountability Framework and Oversight Policies had been established and funded and were functioning as intended as at 31 December 2009. It is further noted that all required coordination and reporting to those bodies external to the organization did occur during 2009.

VII. Advisory services

73. Advisory services cover a wide range of issues relating to internal control concerns, proposed policies, organizational directives, business processes, proposed agreements and specific issues that management may request. During 2009, the Internal Audit and Investigations Group continued to render a number of such services, which included providing comments on policies and procedures.

74. The Internal Audit and Investigations Group continued to assist in reviewing proposed project agreements containing audit clauses to ensure that such clauses are in accordance with the Financial Regulations and Rules and recommend actions to address such audit requirements.

75. It is important to underscore that the Internal Audit and Investigations Group acts only in an advisory capacity and not as a participant in the implementation of any procedure.

VIII. Single audit principle

76. The Internal Audit and Investigations Group continues to uphold the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21) presented to the Executive Board at its annual session 2008.

IX. Disclosure of internal audit reports

77. The Internal Audit and Investigations Group notes Executive Board decision 2008/37 in which the Executive Board took note of the report on the UNOPS accountability and oversight policies (DP/2008/55) and approved the accountability framework and oversight policies set out therein. In this regard, it recognizes the confidential nature of internal audit reports and the procedures approved by the Executive Board, which allows disclosure of internal audit reports when a request is received by a Member State.

78. UNOPS did not receive a request from any Member State to view an internal audit report during 2009.

X. Operational issues

A. Resources

79. During 2009, the structure of the Internal Audit and Investigations Group was bolstered with the addition of one internal auditor and one investigator position, established at professional grades 3 and 4, respectively.

80. On 22 January 2009, the Executive Board adopted a decision relating to UNOPS as a whole in which the Board "Approves *all the proposed post reclassifications as per DP/2009/7 and the associated increase in the 2008-09 biennial administrative budget of up to \$1,045 million, and encourages the Executive Director to prioritize the post upgrades for those positions with the greatest transformational impact for the organization*". In this regard, as at 1 January 2010, three posts had been upgraded in the Internal Audit and Investigations Group: one to Director (D1), one to Senior Internal Auditor (P5) and one to Internal Auditor (P4).

81. The Internal Audit and Investigations Group is currently staffed with one Director, one Senior Internal Auditor, four Internal Auditors, and one Investigator. This structure is supplemented by the engagement of third-party professional firms and individual consultants. As at 31 December 2009, three of the staff positions remained vacant, two of which related to posts newly created during 2009. The impact on the completion of the annual work plan as a result of these vacancies was mitigated by the engagement of individual consultants throughout the year. A recruitment process to fill the vacant posts is ongoing.

B. Online issue tracking system for the follow-up of audit recommendations

82. To assist the Internal Audit and Investigations Group and UNOPS management in following up on the implementation of audit recommendations, the Internal Audit and Investigations Group now uses a web-based, fully automated tracking system, 'Issue Tracker', for monitoring the implementation of audit recommendations.

C. Involvement with professional bodies

83. The Internal Audit and Investigations Group has continued its formal ties with the Institute of Internal Auditors, to whose standards it adheres. Furthermore, it remains an active member of the Danish chapter of the Institute of Internal Auditors and participates in several seminars, presentations and technical events.

XI. Investigations

84. The role of the Internal Audit and Investigations Group was further defined during 2009 in accordance with Organizational Directive No. 15 (Revision 1) – UNOPS Global Structure. The Internal Audit and Investigations Group now leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative instructions. A dedicated budget has been allocated to support this investigative function, and it will be headed by an Investigator staff position, established at a professional grade 4.

85. The Internal Audit and Investigations Group issued 13 investigation reports in 2009 (compared with 3 in 2008), as requested by the General Counsel and approved by the Executive Director. In conducting its investigations, it follows the *Uniform Guidelines for Investigations (updated 2009)* adopted by the Conference of International Investigators. These guidelines have been incorporated into the draft *UNOPS Legal Framework for Addressing Non-compliance with UN Standards of Conduct*, and the revised *UNOPS Investigation Guidelines*, both due for release in the second quarter of 2010.

86. Of the 13 reports finalized by the Internal Audit and Investigations Group, 12 were submitted to the UNOPS General Counsel recommending disciplinary proceedings, or administrative action, of varying degrees. The remaining report related to a preliminary assessment and fact-finding mission and recommended that a formal investigation be undertaken. Where applicable, the reports also contain recommendations for the consideration of management to address the underlying cause of the wrong doing.

XII. Summary of follow-up of 2005, 2006, 2007, 2008 and 2009 audit recommendations

A. Implementation of audit recommendations

87. In line with the standard for the professional practice of internal auditing, which requires "a follow-up process to monitor and ensure that management actions

have been effectively implemented”,⁶ and in order to address Executive Board decision 2006/13, the recurring annual work plans of the Internal Audit and Investigations Group include a follow-up review of audit recommendations on a minimum six-month basis. In addition, for each UNOPS office or project audited, management will be required to provide a follow-up action or activity report addressing each audit recommendation on an ongoing basis, using the online tool, Issue Tracker. The most recent follow-up of previous audit recommendations with UNOPS management was completed in early 2010, reflecting the status of implementation as at 31 December 2009.

88. The Internal Audit and Investigations Group requests that management provide written responses to audit recommendations contained in audit reports, including action taken (or contemplated) to implement recommendations. Desk reviews are performed on its comments and supporting documents, whenever available.

B. Implementation of audit recommendations issued in 2009

89. The combined 2009 audit reports contained 1,179 audit recommendations for improving internal controls and organizational efficiency and effectiveness. Of these, 178 pertain to internal audits reports, 247 to project audits reports and 754 to Small Grants Programme audit reports. Table 6 shows the status of implementation of audit recommendations as at 31 December 2009.

90. The high percentage of audit recommendations categorized as “not implemented” (83 per cent) is due to the “expected completion date” having not yet been reached in the majority of cases, particularly those relating to the Small Grants Programme. Analysis also shows that 11 per cent of the recommendations had been implemented/closed and 6 per cent were in the process of being implemented.

Table 6. Status of implementation of audit recommendations issued in 2009

Status	Number of recommendations				Percentage			Total
	IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP Audits	
Implemented/Closed	29	96	1	126	16	39	<1	11
In process of implementation	69	7	1	77	39	3	<1	6
Not implemented	80	144	752	976	45	58	>99	83
Total	178	247	754	1,179	100	100	100	100

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme.

C. Implementation of audit recommendations from previous years

91. The follow-up review showed that as at 31 December 2009, the overall implementation rate for 2008 audit recommendations was 60 per cent (table 7); for 2007 audit recommendations, it was 94 per cent (table 8); for 2006 audit recommendations, the rate was 95 per cent (table 9); and for 2005 audit recommendations, it was 98 per cent (table 10).

⁶ The Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

92. The Internal Audit and Investigations Group notes the positive result of 90 per cent recorded for clearing audit recommendations relating to project audits from 2008, and it expects to record significant improvement in the overall rate of 60 per cent for 2008 audit recommendations during 2010.

Table 7. Status of implementation of audit recommendations from 2008

Status	Number of recommendations				Percentage			
	IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP Audits	Total
Implemented/Closed	161	153	38	352	45	90	64	60
In process of implementation	116	1	5	122	32	1	9	21
Not implemented	82	15	16	113	23	9	27	19
Total	359	169	59	587	100	100	100	100

Table 8. Status of implementation of audit recommendations from 2007

Status	Number of recommendations	Percentage
Implemented/Closed	136	94
In process of implementation	7	5
Not implemented	2	1
Total	145	100

Table 9. Status of implementation of audit recommendations from 2006

Status	Number of recommendations	Percentage
Implemented	71	95
In process of implementation	4	5
Not implemented	0	0
Total	75	100

Table 10. Status of implementation of audit recommendations from 2005

Status	Number of recommendations	Percentage
Implemented	153	98
In process of implementation	3	2
Not implemented	0	0
Total	156	100

D. High-priority and/or most recurrent audit issues and those unresolved for 18 months or more after the most recent follow-up of audit recommendations with UNOPS management

93. Annex 1 lists the recurrent and/or high-priority audit recommendations issued in 2009. Annex 2 lists unresolved audit recommendations over 18 months old as at 31 December 2009, including comments on their current status, while the Strategy and Audit Advisory Committee annual report 2009 is contained in annex 3.